

# BAE Systems Integrated System Technologies Limited

## Annual Report and Financial Statements

31 December 2023

Registered number: 03456325

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## **Directors' Report**

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### **Company registration**

BAE Systems Integrated System Technologies Limited (the "Company") is a private company, limited by shares and registered in England and Wales with the registered number 03456325.

The Company is a member of the BAE Systems plc Group ("BAE Systems Group" or "Group") of companies.

### **Results and dividends**

The Company's loss for the financial year is £2,951k (2022: £3,730k profit). The Directors do not propose a dividend for 2023 (2022: £nil). The loss in the year has been driven by the fact that no rental income was received while the investment property was being renovated.

### **Principal activities**

The Company is an investment holding company and is itself wholly owned by BAE Systems plc. The principal activity of the Company is the leasing of property, which it expects to continue to do for the foreseeable future.

### **Looking forward**

The Company continues to operate its leases (including sub-leases) until 2030 at which point they will be transferred to another BAE Systems company.

### **Going concern**

The financial statements have been prepared on the going concern basis, notwithstanding net current liabilities of £426,457k. The Company is dependent for its working capital on funds provided to it by BAE Systems plc, the Company's ultimate parent. BAE Systems plc has indicated that, for at least 12 months from the date of approval of these financial statements, it will continue to make available funds as are needed by the Company to meet its liabilities as they fall due and in particular will not seek repayment of amounts currently made available. The Directors consider that this should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

### **Directors and their interests**

The directors who served throughout the year and up to the date of this Directors' Report, unless otherwise stated, were as follows:

D J Cave	(appointed 05 July 2024)
R Checkley	(resigned 05 July 2024)
J E Fothergill	(resigned 05 July 2024)
M H McGovern	(appointed 05 July 2024)
S W Jamieson	(resigned 05 July 2024)
R M Peagram	(resigned 05 July 2024)

The Board is not aware of any contract of significance in relation to the Company in which any director has, or has had, a material interest.

### **Credit risk and liquidity**

The applicable financial risk management policies and exposure to financial risks including price, credit, liquidity and cash flow risks are discussed in detail within the BAE Systems plc Group accounts.

**Directors' Report (continued)**

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**Small companies exemption**

Pursuant to Section 414(B) of the Companies Act 2006, the Company has taken advantage of the exemption from presenting a Strategic Report and this directors' report has been prepared in accordance with the provisions applicable to companies entitled to the small companies' exemption per Section 415(A) of the Companies Act 2006.

**Post balance sheet events**

There have been no significant events affecting the Company since the year end.

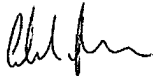
**Disclosure of information to auditor**

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

**Auditor**

The auditor, Deloitte LLP, has indicated its willingness to continue in office and, in accordance with Section 487(2) of the Companies Act 2006, has been re-appointed.

**Approved by the Board and signed on its behalf by:**



**M H McGovern**  
Director

Date: 11 July 2024

Registered office:  
BAE Systems Integrated System Technologies Limited  
Victory Point  
Lyon Way  
Frimley  
Camberley  
Surrey  
GU16 7EX  
England  
United Kingdom

## **Directors' Responsibilities Statement**

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The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 ("FRS 101") Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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## **Independent Auditor's Report to the Members of BAE Systems Integrated System Technologies Limited**

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### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements of BAE Systems Integrated System Technologies Limited (the "Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement and Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity;
- the Statement of Accounting Policies; and
- the related notes 1 to 16.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Conclusions relating to going concern**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

#### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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**Independent Auditor's Report to the Members of BAE Systems Integrated System Technologies Limited (continued)**

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Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Extent to which the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit, and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

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**Independent Auditor's Report to the Members of BAE Systems Integrated System Technologies Limited (continued)**

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In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

**Report on other legal and regulatory requirements****Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

**Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit;
- the directors were not entitled to take advantage of the small companies' exemption in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

**Use of our report**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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**Independent Auditor's Report to the Members of BAE Systems Integrated System Technologies Limited (continued)**

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*Stephen Pratt*

Stephen Pratt CA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP  
Statutory Auditor

Edinburgh  
United Kingdom

11 July 2024

**Income Statement and Statement of Comprehensive Income**  
for the year ended 31 December 2023

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	<b>Note</b>	<b>2023</b> <b>£000</b>	<b>2022</b> <b>£000</b>
Operating costs	3	<b>(2,533)</b>	(2,907)
Other income	4	<b>415</b>	7,302
<b>Operating (loss)/profit</b>		<b>(2,118)</b>	4,395
Financial expense	5	<b>(769)</b>	(665)
<b>(Loss)/profit before tax</b>		<b>(2,887)</b>	3,730
Tax	7	<b>(64)</b>	-
<b>(Loss)/profit for the financial year</b>		<b>(2,951)</b>	3,730

The results from 2023 and 2022 arise from continuing activities.

The notes on pages 12 to 26 form part of these financial statements.

**BAE Systems Integrated System Technologies Limited**  
**Annual Report and Financial Statements**  
**31 December 2023**

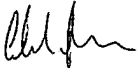
**Balance Sheet**  
as at 31 December 2023

	Note	2023 £000	2022 £000
<b>Non-current assets</b>			
Property, plant and equipment	8	18,476	1,139
Investment property	9	10,848	22,067
Other receivables	11	426,292	426,292
		<u>455,616</u>	<u>449,498</u>
<b>Current assets</b>			
Other receivables	11	937	548
		<u>456,553</u>	<u>450,046</u>
<b>Non-current liabilities</b>			
Lease liabilities	13	(12,885)	(23,071)
Provisions	14	(352)	(596)
Deferred tax liabilities	10	(64)	-
		<u>(13,301)</u>	<u>(23,667)</u>
<b>Current liabilities</b>			
Other payables	12	(425,375)	(404,184)
Lease liabilities	13	(2,019)	(3,386)
		<u>(427,394)</u>	<u>(407,570)</u>
		<u>(440,695)</u>	<u>(431,237)</u>
<b>Total liabilities</b>			
		<u>15,858</u>	<u>18,809</u>
<b>Net assets</b>			
<b>Capital and reserves</b>			
Share capital	15	16,937	16,937
Retained (deficit)/earnings		(1,079)	1,872
		<u>15,858</u>	<u>18,809</u>
<b>Total equity</b>			
		<u>15,858</u>	<u>18,809</u>

**Balance Sheet (continued)**  
as at 31 December 2023

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Approved by the Board on 11 July 2024 and signed on its behalf by:



**M H McGovern**  
Director

Registered number: 03456325

The notes on pages 12 to 26 form part of these financial statements.

**Statement of Changes in Equity**  
for the year ended 31 December 2023

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	<b>Issued share capital £000</b>	<b>Retained earnings/ (deficit) £000</b>	<b>Total equity £000</b>
At 1 January 2022	16,937	(1,858)	15,079
Profit and total comprehensive income for the year	-	3,730	3,730
At 31 December 2022	<u>16,937</u>	<u>1,872</u>	<u>18,809</u>
Loss and total comprehensive expense for the year	-	(2,951)	(2,951)
<b>At 31 December 2023</b>	<b><u>16,937</u></b>	<b><u>(1,079)</u></b>	<b><u>15,858</u></b>

The notes on pages 12 to 26 form part of these financial statements.

## Notes to the Financial Statements

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### 1. General information

BAE Systems Integrated System Technologies Limited is a private company, limited by shares, and registered in England and Wales and incorporated in the United Kingdom. Its ultimate controlling party is disclosed in note 16. The address of the Company's registered office is shown on page 2.

The principal activity of the Company is set out in the Directors' Report on page 1. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless otherwise stated, rounded to the nearest pound.

### 2. Accounting policies

#### 2.1 Basis of preparation

These financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework". The financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments), and in accordance with the Companies Act 2006. Advantage has been taken of the FRS 101 disclosure exemptions as set out below:

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1 Presentation of Financial Statements;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraphs 76 and 79(d) of IAS 40 Investment Property.
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

The Company intends to continue to prepare its financial statements in accordance with FRS 101.

These financial statements have been prepared using the going concern basis of accounting, as discussed in the Director's Report (page 1).

## Notes to the Financial Statements

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### 2. Accounting policies (continued)

#### 2.1 Basis of preparation (continued)

##### **Key sources of estimation uncertainty**

There were no significant accounting policies that are considered by the directors to be critical because of the level of complexity and estimation uncertainty involved in their application and their impact on the financial statements, except for valuation of investment properties where 2% change in discount rate could result in an impact of £2.5m on the value of investment property.

##### **Critical accounting judgments**

In the course of preparing the financial statements, no judgements have been made in the process of applying the Company's accounting policies, that have had a significant effect on the amounts recognised in the financial statements.

##### **Changes in accounting policies**

Several standards, interpretations and amendments to existing standards became effective on 1 January 2023, none of which had a material impact on the Company. The following standards, interpretations and amendments to existing standards became effective on 1 January 2023 and have not had a material impact on the Company:

- IFRS 17 Insurance Contracts, effective from 1 January 2023;
- Amendments to IAS 1: Presentation of Financial Statements, effective from 1 January 2023;
- Amendments to IFRS Practice Statement 2: Disclosure of Accounting Policies, effective from 1 January 2023;
- Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, effective from 1 January 2023; and
- Amendments to IAS 12: Income Taxes, effective from 1 January 2023.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 January 2023. These either have been, or are expected to be endorsed by the UK Endorsement Board and are not expected to have a material impact on the Company:

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current, effective from 1 January 2024;
- Amendments to IAS 1: Non-Current Liabilities with Covenants, effective from 1 January 2024;
- Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements, effective from 1 January 2024;
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback, effective from 1 January 2024; and
- IFRS 18 Presentation and Disclosure in Financial Statements, effective from 1 January 2027.

##### **Material accounting policies**

The material accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated. The directors believe that the financial statements reflect appropriate judgements and estimates, and provide a true and fair view of the Company's financial performance and position.

## Notes to the Financial Statements

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### 2. Accounting policies (continued)

#### 2.2 Leases

##### *The Company as lessee*

All leases in which the Company is lessee (except as noted below) are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between repayment of the lease liability and finance cost. The finance cost is charged to the Income Statement over the lease term to produce a constant periodic rate of interest on the lease liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured as the present value of future lease payments, discounted using the interest rate implicit in the lease. Where this rate is not determinable, the Company's incremental borrowing rate is used, which is the interest rate the Company would have to pay to borrow the amount necessary to obtain an asset of similar value, in a similar economic environment with similar terms and conditions.

The right-of-use asset is initially measured at cost, comprising the initial value of the lease liability, any lease payments made (net of any incentives received from the lessor) before the commencement of the lease, any initial direct costs and any restoration costs.

If a right-of-use asset meets the definition of investment property, the Company applies the requirements of IAS 40.

The carrying amounts of the Company's right-of-use assets are reviewed at each Balance Sheet date to determine whether there is any indication of impairment.

Payments in respect of short-term leases, low-value leases and leases of intangible assets are charged to the Income Statement on a straight-line basis over the lease term.

##### *The Company as lessor*

Leases in which the Company is lessor are classified as finance leases or operating leases. If the lease transfers substantially all of the risks and rewards of ownership to the lessee, the lease is classified as a finance lease. All other leases are classified as operating leases.

Lease income under operating leases is recognised in the Income Statement on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as a receivable discounted at the interest rate implicit in the lease. Finance lease income is recognised in the Income Statement over the lease term to produce a constant periodic rate of interest on the receivable.

#### 2.3 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

## Notes to the Financial Statements

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### 2. Accounting policies (continued)

#### 2.4 Property, plant and equipment

##### *Cost*

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, testing costs and an appropriate proportion of production overheads. The cost of demonstration assets is written off as incurred.

Assets held for leasing out under operating leases are included in property, plant and equipment at cost less accumulated depreciation and impairment losses.

##### *Depreciation*

Depreciation is provided, normally on a straight-line basis, to write off the cost of property, plant and equipment over their estimated useful lives to any estimated residual value, using the following rates:

Buildings - up to 50 years, or the lease term if shorter

No depreciation is provided on freehold land and assets in the course of construction.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each Balance Sheet date.

#### 2.5 Investment property

##### *Cost*

Land and buildings that are leased to BAE Systems plc Group or non-BAE Systems plc Group entities are classified as investment property. The Company measures investment property at its cost less accumulated depreciation and impairment losses.

##### *Depreciation*

Depreciation is provided, on a straight-line basis, to write off the cost of investment property over its estimated useful life of up to 50 years or the lease term if shorter.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each Balance Sheet date.

##### *Impairment*

The carrying amounts of the Company's investment property are reviewed at each Balance Sheet date to determine whether there is any indication of impairment.

#### 2.6 Other receivables

Other receivables are stated at amortised cost including a provision for expected credit losses. The Company measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

#### 2.7 Other payables

Other payables are stated at amortised cost.

## Notes to the Financial Statements

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### 2. Accounting policies (continued)

#### 2.8 Provisions

A provision is recognised on the Balance Sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax discount rate.

##### *Dilapidations*

Provisions are for dilapidations on properties.

#### 2.9 Tax

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

##### *Current tax*

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

##### *Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences:

- on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- related to investments in subsidiaries and equity accounted investments to the extent that it is probable that they will not reverse in the foreseeable future; and
- arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to corporate income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

**Notes to the Financial Statements**

**3. Operating costs**

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Depreciation of investment property (note 9)	2,290	2,392
Property costs	-	140
Other operating charges	243	375
	<b>2,533</b>	<b>2,907</b>
	<b>2,533</b>	<b>2,907</b>

The remuneration of the auditor for the year ended 31 December 2023 for auditing of the financial statements was £12,000 (2022: £11,900) and £nil (2022: £nil) in respect of non-audit work and was borne by fellow group undertaking, BAE Systems Surface Ships Limited.

**4. Other income**

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Impairment reversal (note 9)	176	4,114
Operating lease income (note 13)	239	3,188
	<b>415</b>	<b>7,302</b>
	<b>415</b>	<b>7,302</b>

**5. Financial expense**

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Interest expense on lease liabilities (note 13)	769	665
	<b>769</b>	<b>665</b>
	<b>769</b>	<b>665</b>

**6. Employees**

The Company has no employees (2022: nil).

None of the directors received any emoluments from the Company during the year. All directors who served during the year were employed by either BAE Systems plc or another group company and were remunerated through those companies. The Directors did not provide any material qualifying services to the Company.

**Notes to the Financial Statements**

**7. Tax**

**Tax expense**

	2023 £000	2022 £000
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(258)	-
Adjustments in respect of prior years	194	-
	(64)	-
<b>Tax (expense)</b>	(64)	-

**Reconciliation of tax (expense)**

The following reconciles the expected tax income/(expense), using the UK corporation tax rate, to the reported tax (expense)/result:

	2023 £000	2022 £000
<b>(Loss)/profit before tax</b>	(2,887)	3,730
UK corporation tax rate	23.50%	19.00%
Expected tax income/(expense) on (loss)/profit	678	(709)
Expenses not tax effected	(103)	-
Property, plant and equipment	(12)	3
Provisions and accruals	(4)	(13)
Imputed interest (income)	(156)	(69)
Losses (surrendered to)/received from fellow group companies	(665)	786
Adjustments in respect of prior years	194	-
Other	4	2
<b>Tax (expense)/result</b>	(64)	-

The Government announced in 2021 that from 1 April 2023 the UK corporation tax rate would increase from 19% to 25%. The deferred tax liability has been calculated at the tax rates, enacted at each Balance Sheet date, expected to apply to the temporary differences when they reverse.

No provision for current tax is required. The company has surrendered its tax losses to fellow group companies free of charge.

On 20 June 2023, Finance (No. 2) Act 2023 was substantively enacted in the UK, including legislation to implement the Organisation for Economic Co-operation and Development's Pillar Two income taxes rules. The Company, as part of the wider BAE Group is within the scope of the rules and the first period for which a Pillar Two tax return will be required for the BAE Group is the accounting period ending on 31 December 2024.

Notes to the Financial Statements

8. Property, plant and equipment

	Long leasehold: Land and buildings £000	*AICC £000	Total £000
<b>Cost or valuation</b>			
At 1 January 2023	-	1,139	1,139
Additions	17,425	-	17,425
Transfers between classes	1,139	(1,139)	-
<b>At 31 December 2023</b>	<b>18,564</b>	<b>-</b>	<b>18,564</b>
<b>Depreciation</b>			
Depreciation charge for the year	88	-	88
<b>At 31 December 2023</b>	<b>88</b>	<b>-</b>	<b>88</b>
<b>Net book value</b>			
<b>At 31 December 2023</b>	<b>18,476</b>	<b>-</b>	<b>18,476</b>
At 31 December 2022	-	1,139	1,139

**Capital commitments**

Capital expenditure contracted for but not provided for in full in the financial statements is £nil (2022: £524k).

\*AICC - assets in the course of construction. No depreciation is provided on assets in the course of construction.

**Notes to the Financial Statements**

**9. Investment property**

	<b>Investment property £000</b>
<b>Cost</b>	
At 1 January 2023	39,688
Revaluations	(9,105)
<b>At 31 December 2023</b>	<b>30,583</b>
<b>Depreciation and impairment</b>	
At 1 January 2023	17,621
Depreciation charge for the year	2,290
Impairment reversal	(176)
<b>At 31 December 2023</b>	<b>19,735</b>
<b>Net book value</b>	
<b>At 31 December 2023</b>	<b>10,848</b>
At 31 December 2022	22,067
<b>Fair Value</b>	
<b>At 31 December 2023</b>	<b>10,848</b>
At 31 December 2022	22,067

The fair values above are based on the value in use and reflect current market values. The fair value is equivalent to the value in use which has been derived from the recoverable amount.

Movement in cost and impairment is due to re-gearing of the Frimley lease. The impairment reversal was calculated using a discount rate of 6.17%.

**Notes to the Financial Statements**

**10. Deferred taxation**

**Deferred tax assets/(liabilities)**

	<b>Deferred tax assets</b>		<b>Deferred tax liabilities</b>		<b>Net balance at 31 December</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Property, plant and equipment	-	-	(152)	-	(152)	-
Provisions and accruals	88	-	-	-	88	-
	<b>88</b>	<b>-</b>	<b>(152)</b>	<b>-</b>	<b>(64)</b>	<b>-</b>

**Movement in temporary differences during the year**

	<b>At 1 January 2023</b>	<b>Recognised in income</b>	<b>At 31 December 2023</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Property, plant and equipment	-	(152)	(152)
Provisions and accruals	-	88	88
	<b>-</b>	<b>(64)</b>	<b>(64)</b>

The Government announced in 2021 that from 1 April 2023 the UK corporation tax rate would increase from 19% to 25%. The deferred tax asset/(liability) at each Balance Sheet date has been calculated at the tax rates, enacted at that date, expected to apply to the temporary differences when they reverse.

**Notes to the Financial Statements**

**11. Other receivables**

	2023 £000	2022 £000
<b>Non-current</b>		
Amounts owed by BAE Systems plc subsidiaries	368,381	426,292
Amounts owed by BAE Systems plc	57,911	-
	426,292	426,292
<b>Current</b>		
Other receivables	143	397
Prepayments	20	151
VAT debtors	111	-
Accrued income	663	-
	937	548

Amounts owed by BAE Systems plc and its subsidiaries are payable on demand. No interest is applied to amounts owed and they are unsecured.

The impact of discounting non-current amounts owed by BAE Systems plc and its subsidiaries is not material given that the amounts are repayable on demand and therefore the contractual period over which these loans could be recalled is one day after the end of the reporting period, so has not been applied.

**12. Other payables**

	2023 £000	2022 £000
<b>Current</b>		
Amounts owed to BAE Systems plc subsidiaries	420,906	402,950
Amounts owed to BAE Systems plc	277	-
Accruals	3,534	462
Deferred income	658	772
	425,375	404,184

Amounts owed to BAE Systems plc and its subsidiaries are payable on demand. No interest is applied to amounts owed and they are unsecured.

**Notes to the Financial Statements**

**13. Leases**

The Company leases land, buildings, vehicles and equipment under non-cancellable lease arrangements. There are no terms that represent unusual arrangements or create material onerous or beneficial rights or obligations.

	<b>2023</b>	<b>2022</b>
	<b>Investment Property £000</b>	<b>Investment Property £000</b>
Net book value as at 1 January	22,067	20,345
Revaluations	(9,105)	-
Depreciation expense for the year	(2,290)	(2,392)
Impairment reversal for the year	176	4,114
Net book value as 31 December	<b>10,848</b>	<b>22,067</b>

**Lease liabilities**

A maturity analysis of the future undiscounted lease payments in respect of the Company's lease liabilities is presented in the table below.

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Payments due:		
Within one year	2,868	3,973
Between one and five years	11,470	15,891
Later than five years	3,639	8,958
	<b>17,977</b>	<b>28,822</b>
Impact of discounting	<b>(3,073)</b>	<b>(2,365)</b>
Total discounted lease liability	<b>14,904</b>	<b>26,457</b>
Current	<b>2,019</b>	3,386
Non-current	<b>12,885</b>	23,071
	<b>14,904</b>	<b>26,457</b>

The total cash outflow for leases recognised on the Balance Sheet in the year ended 31 December 2023, amounted to £3,217k (2022: 3,973k).

**Notes to the Financial Statements**

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**13. Leases (continued)**

**Amounts recognised in the Income Statement**

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
<b>Included in operating costs:</b>		
Depreciation on right-of-use assets	<b>2,290</b>	2,392
	<b>2,290</b>	2,392
<b>Included in other income:</b>		
Operating lease income from subleasing right-of-use assets	<b>239</b>	3,188
	<b>239</b>	3,188
<b>Included in net finance costs:</b>		
Interest expense on lease liabilities	<b>769</b>	665
	<b>769</b>	665

Notes to the Financial Statements

14. Provisions

	Dilapidations £000
Non-current	596
Current	-
	596
At 1 January 2023	596
Released	(273)
Created	29
	352
<b>At 31 December 2023</b>	<b>352</b>
<b>Represented by:</b>	
Non-current	352
Current	-
	352
	<b>352</b>

**Dilapidations**

The provision relates to dilapidations on the Frimley site. It is not expected to fully settle until the end of the lease in 2030. Provision has been calculated using a discount rate of 6.17% following the re-gear of the lease in the year.

15. Share capital

	£1 Ordinary shares	Nominal value £000
<b>Authorised</b>		
At 1 January 2022, 31 December 2022 and 31 December 2023	<b>25,000,000</b>	<b>25,000</b>
<b>Issued and fully paid</b>		
At 1 January 2022, 31 December 2022 and 31 December 2023	<b>16,937,092</b>	<b>16,937</b>

**Notes to the Financial Statements**

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**16. Controlling parties**

The immediate parent company is BAE Systems Electronics Limited and the ultimate controlling party is BAE Systems plc, which is both the smallest and largest parent company preparing group financial statements. Both companies are incorporated in the United Kingdom and registered in England and Wales.

The consolidated financial statements of BAE Systems plc are available to the public and may be obtained from its registered address:

6 Carlton Gardens  
London  
SW1Y 5AD

Website: [www.baesystems.com](http://www.baesystems.com)